S & L Vitamins, Inc. v. Australian Gold, Inc. Doc. 12

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UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

S & L VITAMINS, INC., Plaintiff, - vs. - AUSTRALIAN GOLD, INC., Defendant.	CIVIL ACTION NO. 05-CV-1217 (JS) (MLO)
AUSTRALIAN GOLD, INC., Third Party Plaintiff, - vs. - LARRY SAGARIN AND JOHN DOES 1-10, Third Party Defendants.	

BRIEF OF PLAINTIFF AND THIRD PARTY DEFENDANT

IN SUPPORT OF MOTION TO DISMISS

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PRELIMINARY STATEMENT

S&L Vitamins Inc., the corporate plaintiff/counterclaim defendant[1], makes this Federal Rule of Civil Procedure 12(b)(6) motion to dismiss the counterclaims in this action because defendant cannot maintain its trademark, unfair competition, dilution, or tortious interference claims, and, to the contrary, has utilized litigation - or the threat of it - as a form of unfair competition against a smaller competitor with far fewer resources. This is **not** a case of an Internet merchant falsely placing a trademark holder's marks on its website to attract Internet traffic to sell unrelated goods. Rather, this is a case in which defendant is attempting to use the courts to extend its market control beyond its own contracts and relationships, and to prevent even a party that has lawfully purchased merchandise through legitimate **retail** outlets from reselling it to willing buyers over the Internet. There is no legal basis for such audacious overreaching, nor is there any cognizable unfair competition or trademark claim by defendant here.

Plaintiff is a small independent retailer that lawfully buys merchandise at retail stores and sells that merchandise on the Internet, much as millions of people do every day either on their own websites or in markets such as eBay and the like. Defendant/counterclaim plaintiff, Australian Gold, Inc. ("Australian Gold" or "defendant"), is a leading manufacturer of tanning lotion and related products that seeks complete control over the sale and distribution of its products. As the pleadings demonstrate, defendant is prepared to achieve and maintain that control that by manipulating the federal intellectual property schema and using litigation, or the threat of it, as a form of competition.

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[1] The third party defendant, Larry Sagarin, is a principal of S&L Vitamins, and Australian Gold asserts the same claims against both. For convenience, both are referred to collectively here as "S&L Vitamins," "S&L" or "plaintiff."

As will be demonstrated below, plaintiff's activities are permissible under the first sale doctrine, which permits an individual to sell a trademark-protected product, regardless of whether the trademark owner wishes him to or not, once he has purchased that product. Defendant's counterclaims attempt to circumvent this doctrine by asserting that while trademark law does not prevent S&L from **selling** the products in question, it prevents S&L from **advertising** - however truthfully; however accurately; however beneficially to the consumer - that it sells the products in question.

This logic is ludicrous. Trademark law is designed to protect consumers by preventing customer confusion; it is not designed to protect a manufacturer's inflated price structure by preventing truthful, accurate advertising. Clearly defendant, aware that trademark law does not permit it to stifle legal sales - on-line or otherwise - of its products, is trying to accomplish through the back door what it cannot accomplish through the front. This Court should not permit it to succeed.

STATEMENT OF FACTS

All the facts set forth herein are based on the pleadings in this matter. S&L Vitamins operates an Internet website which sells various products to consumers at discount prices. Among the products offered for sale are tanning products, including those manufactured by defendant, which S&L Vitamins obtains from various retailers. S&L Vitamins informs the public that it is offering this merchandise for sale, and transacts sales, through its website.

On or about January 15, 2004, defendant's counsel sent correspondence to S&L threatening legal action for copyright infringement, trademark infringement, trademark dilution, unfair competition, and intentional interference with contract. There followed an exchange of correspondence between counsel for the two sides in which S&L made clear that it believed in good faith that it was acting within legal boundaries; that its legal and factual research indicated this to be the case; and inviting defendant to provide plaintiff with any legal authority to the contrary. There was no further correspondence.

A little more than a year later, however, on or about February 22, 2005, defendant resumed its threatening correspondence to S&L. Based upon that letter, which promised legal action, S&L filed a complaint for declaratory judgment in this Court, hoping to establish its legal rights to sell and advertise its own property once and for all.

In response to S&L's filing, defendant asserted counterclaims for trademark infringement, trademark dilution, state and federal unfair competition, false advertising, and tortious interference with contract and prospective economic advantage[2]. Defendant essentially complains that a retailer's truthful and accurate advertisement that it sells a trademark holder's products is "misleading," apparently because some customer, somewhere, contrary to all the information presented to him on S&L's website, may become confused into believing that the retailer is affiliated with the trademark holder.

Defendant further claims that S&L Vitamins' legal sale of these products is "unauthorized" - as if some sort of regulatory approval were required to sell tanning lotion - and that such sale amounts to interference with Defendant's distribution agreements. Defendant's counterclaim describes a scheme by defendant to control the marketplace in its products through an arrangement under which defendant sells only to distributors who in turn agree to sell only to tanning salons which agree to keep prices artificially high. The sine qua non of this arrangement is that defendant will threaten or file litigation against any person who sells its products at a competitive price, regardless of how it was obtained, and assert intellectual property and contractual claims meant to cow smaller competitors into capitulation. The result is the maintenance of monopoly-like profits for defendant and its distributors alike.

Defendant's problem, however, is that - exactly as economic theory predicts - the retailers have a strong incentive to depart from a scheme that benefits them only marginally (since they could sell more tanning lotion if it were fairly priced) and sell

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2 Defendant's Counterclaim against Plaintiff and its Complaint against Third Party Defendant Larry Sagarin each state ten counts for relief. The counts are numbered slightly differently in the Counterclaim and Third Party Complaint, but they are in all other aspects identical.

to so-called "unauthorized" retailers who in turn make the product available to consumers at market prices. To defendant's dismay, there is no legal reason these tanning salons may not do this, for unlike the "authorized" distributors, they are under no contractual obligation to limit their sales.

Thus defendant must claim, regardless of the facts, that the merchandise sold by plaintiff was purchased from its distributors, giving rise to a supposed interference with contract. Yet the counterclaim not only fails to identify even one distributor with which S&L Vitamins supposedly did business; it does not even suggest defendant's factual grounds for alleging that such a distributor exists, nor any basis for claiming that S&L Vitamins knew of defendant's alleged contracts with any particular distributors (as opposed to blank sample contracts submitted with defendant's correspondence), which - even after being privy to defendant's allegations and extensive submissions made part of its pleadings - it still does not.

The purchase of products from retailers could not possibly constitute interference with contract because defendant has not claimed the existence of any contracts between these retailers and defendant. And, consistent with legal authority, the use of trademarks to identify accurately the various products that it sells is, under well-established precedent, not infringement.

LEGAL ARGUMENT

A. THE COUNTERCLAIMS CANNOT WITHSTAND THE STANDARD FOR DISMISSAL FOR FAILURE TO STATE A CLAIM UNDER FED. R. CIV. P. 12(b)(6)

Under Federal Rule of Civil Procedure 12(b)(6), a court should dismiss a complaint if it is clear that no relief could be granted under any set of facts that could be proved consistent with the allegations. Swierkiewicz v. Sorema N.A., 534 U.S. 506 (2002). It is well settled that while, in determining a dismissal motion under Rule 12(b)(6), a District Court must accept the allegations contained in the complaint as true and draw all reasonable inferences in favor of the nonmoving party, Burnette v. Carothers, 192 F.3d 52, 56 (2d Cir. 1999), "conclusory allegations or legal conclusions masquerading as factual conclusions will not suffice to prevent a motion to dismiss." Smith v. Local 8191 B.T. Pension Plan, 291 F.3d 236, 240 (2d Cir. 2002)). The task of the court addressing the 12(b)(6) motion is not to determine the weight of the evidence, but only to assess the legal feasibility of the complaint. Sims v. Artuz, 230 F.3d 14, 20 (2d Cir. 2000). "The issue is not whether a plaintiff will ultimately prevail, but whether the claimant is entitled to offer evidence to support the claims." Scheuer v. Rhodes, 416 U.S. 319, 322, 94 S.Ct. 1683, 40 L.Ed.2d 90 (1974). In reaching its determination, a court's review must be limited to the complaint and documents attached or incorporated by reference thereto. *See* Kramer v. Time Warner, Inc., 937 F.2d 767, 773 (2d Cir. 1991). In other words, a 12(b)(6) motions permits each particular defendant to eliminate causes of action for which no set of facts has been identified that support the claims against him. Wynder v. McMahon, 360 F.3d 73, 80 (2d Cir. 2004).

Defendant seeks to distract from its lack of cognizable legal facts by the submissions of "weighty" pleadings. It has attached as exhibits, for no obvious reason, the entire file wrappers associated with its routine and undisputed trademark applications, as if the existence and validity of defendant's trademarks have at any time been questioned by plaintiff (they have not). Given this avalanche of paper, the absence of specific factual allegations, much less documentation, that would meet the standard of Fed. R. Civ. 12(b)(6) and actually support defendant's wide-ranging counterclaims is damning. *See*, Microtel Franchise & Development Corp. v. Country Inn Hotel, 923 F. Supp. 415, 418-19 (W.D.N.Y. 1996) (dismissing claim based on materials attached to complaint); Peterson v. Atlanta Housing Auth., 988 F.2d 904, 913 (11th Cir. 1993) (summary judgment based on exhibits).

1. Defendant's trademark and unfair competition claims should be dismissed under the first sale doctrine.

It is hornbook law that S&L Vitamins' sale of defendant's products was wholly lawful according to the first sale exhaustion principle. "[T]he right of a producer to control distribution of its trademarked product does not extend beyond the first sale of the product. Resale by the first purchaser of the original article under the producer's trademark is neither trademark infringement nor unfair competition." Sebastian Int'l, Inc. v. Longs Drug Stores Corp., 53 F.3d 1073, 1074 (9th Cir.), cert. denied, 516 U.S. 914 (1995). In addition, "The exhaustion or first-sale rule is not an affirmative defense. Rather, **it defines an area of commerce beyond the reach of trademark law."** Taylor Made Golf Company, Inc. v. MJT Consulting Group LLC, 265 F.Supp.2d 732 (N.D. Tex. 2003), citing Polymer Tech. Corp. v. Mimran, 975 F.2d 58, 61 (2d Cir. 1992) (emphasis supplied).

Defendant's claims of trademark infringement and unfair competition, therefore, are not grounded in any recognized legal theory of trademark law. Once a trademark owner such as defendant sells goods protected by trademark, a buyer such as plaintiff is free to resell those goods to others without having to remove the trademarks.

Furthermore, the first sale exhaustion rule is not limited to "authorized" resales; to so limit the rule would be to eviscerate it. It applies even when no subsequent resales are anticipated or even contemplated by the trademark owner. In fact, even when trademark-protected goods are diverted by wholesalers to "unauthorized" retail outlets, such as discounters, it is not trademark infringement for those discounters to sell those goods, and to market them with the use of the trademarks, despite the displeasure or objections of the trademark owner. Sales of merchandise at retail are, after all, not licenses.

For example, in Adobe Systems Inc. v. One Stop Micro Inc., 84 F. Supp.2d 1086 (N.D. Cal. 2000), Adobe sold an educational version of its software which at a substantial discount. One Stop lawfully purchased numerous units of the educational version and sold some of them, unchanged, to non-students on the open market, without Adobe's authorization. Adobe, like defendant here frustrated by its inability to control the "downstream" flow of its merchandise by commercial means, sued, claiming that One Stop's sales of its Adobe-branded merchandise constituted trademark infringement. The court rejected this claim on the basic principle that the whole purpose of trademarks is to communicate to consumers that what they are buying is indeed what they think it is, and not more or less: "Adobe fails to present evidence of how One Stop's activities affected the quality of its software," wrote the court. "The mere distribution by One Stop of admittedly unadulterated software is insufficient to establish trademark infringement . . ." Id. at 1094.

Even closer to the instant case in terms of facts is McDonald's Corp. v. Shop at Home, Inc., 82 F.Supp.2d 801 (M.D. Tenn. 2000). The McDonald's restaurant chain had a toy firm manufacture a special "collectable" toy premium, which was marketed aggressively to increase patronage at McDonald's restaurants. Defendant obtained quantities of the toys directly from McDonald's franchisees – the source McDonald's had in fact "authorized" to sell the toys – and then in turn offered them for sale on television even before the toys were available as premiums at McDonald's. The Court rejected McDonald's argument, similar to the claim made by defendant here, that the "first sale" did not occur until the merchandise was purchased and consumed by an "end user":

> In this case, McDonald's products were on the open market albeit on their way to the ultimate consumer—long before they reached the hands of Shop At Home or the other defendants. The sale to the franchisees was a first sale to which McDonald's consented. The earlier sales that took

> place along the supply chain might also qualify as first, second and other sales.

Id. at 814. The court found that the authorized first sale occurred either when the premiums were sold by the original manufacturer of the toys or when they were sold to the McDonald's franchisee. That a McDonald's franchisee made an "unauthorized" bulk sale of the toys to defendant did not make the defendant a trademark infringer. "That McDonald's did not approve of the alleged sale between the franchisees and the defendants makes little difference if McDonald's approved of the prior sales of the toys up to and including the sale to the franchisees." Id. at 812.

Here, too, where the very retailers Defendant supposedly wishes to protect have made the rational economic decision to sell defendant's lotion to plaintiffs, there is nothing in the Lanham Act that prevents S&L from truthfully identifying its wares - regardless of whether defendant approves of the medium.

2. Defendant's counterclaims for trademark infringement and unfair competition under the Lanham Act are uncognizable under the nominative fair use doctrine

The nominative fair use doctrine gives additional reason to dismiss defendant's counterclaims. It is axiomatic that given the prevalence and high visibility of trademarks in our society, it is often essential to use someone else's trademark to refer legitimately to that person's goods. For example, website proprietors frequently use third parties' trademarks on the Internet to identify the various brands they offer for sale. This practice, which is all that S&L Vitamins did with respect to defendant's trademarks, is called nominative use of trademarks – nominative because the mark is being used to name another party.

The prevailing approach to nominative use is the one formulated in the Ninth Circuit by Judge Kozinski in New Kids on the Block v. News America Pub., Inc., 971 F.2d 302 (9th Cir. 1992). In that case, the court adopted the following test for nominative use:

> First, the product or service in question must be one not readily identifiable without use of the trademark; second, only so much of the mark or marks may be used as is reasonably necessary to identify the product or service; and third, the user must do nothing that would, in conjunction with the mark, suggest sponsorship or endorsement by the trademark holder.

Id. at 308 (footnote omitted). The New Kids court noted in its opinion that a commercial use may be a nominative use. Id. at 309.

Similarly, and highly instructive in the matter at bar, is Playboy Enterprises, Inc. v. Welles, 279 F.3d 796 (9th Cir. 2002). There the defendant, a former Playmate of the Year, made use in meta-tags and online content of the term PLAYMATE OF THE YEAR, which is a trademark of Playboy. The Ninth Circuit concluded that the defendant had satisfied all three prongs of the New Kids test in using the trademarks in both the banner advertisements and in the meta-tags and that the complaint, therefore, should be dismissed. Regarding the meta-tags, the court observed, in language that is instructive here:

> There is simply no descriptive substitute for the trademarks used in Welles' metatags. Precluding their use would have the unwanted effect of hindering the free flow of information on the internet, something which is certainly not a goal of trademark law.

Welles, 279 F.3d at 804.

Moreover, Defendant's state and federal unfair competition claims are premised on S&L Vitamins' supposed improper use of Defendant's products which, according to Defendant, falsely suggest sponsorship or endorsement by Defendant. The first sale and nominative fair use doctrines, however, fully permit S&L Vitamins to sell Defendant's products and to advertise that it is doing so without calling into question issues of sponsorship or endorsement. Defendant's claim for unfair competition, therefore, is not based on any cognizable legal theory.

For all of the foregoing reasons, S&L Vitamins' sale of Defendant's products not only is supported, protected, and legitimized by the law, but the sale represents an area of commerce that is not even within the contemplation of trademark law. Defendant wholly lacks any cognizable legal theory on which to base its trademark and unfair competition claims, and, thus, such claims are appropriate for Rule 12(b)(6) dismissal.

3. Defendant's counterclaims for trademark dilution are uncognizable under the nominative fair use doctrine

Defendant argues that plaintiff's use of its trademarks constitutes "dilution." Trademark dilution occurs when a famous mark is used by a third party in such a way as to dilute the distinctive quality of the mark. Such a claim is simply inapplicable to the allegations pleaded by the defendant.

The Ninth Circuit in Welles also addressed Playboy's assertion that Welles's uses of its marks constituted trademark dilution, which is also claimed by defendant here. In finding that Welles had engaged in nominative fair use, the court explained, there could be no dilution, because nominative fair use "**by definition**, do[es] not dilute trademarks." Id. at 805 (emphasis added). The court went on to write:

> Uses that do not create an improper association between a mark and a new product but merely identify the trademark holder's products should be excepted from the reach of the anti-dilution statute. Such uses cause no harm . . . [W]e conclude that nominative uses are also excepted [from anti-dilution law]. A nominative use, by definition, refers to the trademark holder's product. It does not create an improper association in consumers' minds between a new product and the trademark holder's mark . . . **So long as a use is nominative . . . trademark law is unavailing.**

Id. at 806 (emphasis supplied).

In this case, logically, the only way for S&L Vitamins to describe the products manufactured by defendant that it is selling is by referring to them - truthfully, accurately - as defendant's products. Such a reference, by definition, is nominative fair use, for which "trademark law is unavailing," id., and which, far from diluting them, actually strengthens defendant's marks by accurately associating with them with the authentic goods with which they are associated. Therefore, under the nominative fair use doctrine and pertinent case law, according to the terms of its own allegations, defendant has no cognizable counterclaim for trademark infringement or dilution.

Indeed, Congress never intended the powerful antidilution provisions of the Lanham Act to be used to deprive an independent dealer of legitimate use of the mark of products in which he deals. In Ty Inc. v. Perryman, 306 F.3d 509 (7th Cir. 2002), cert. denied, 538 U.S. 971 (2003), Judge Posner, writing for the

Seventh Circuit Court of Appeals, explained that the owner of the mark BEANIE BABIES for beanbag stuffed animal toys could not prevent defendant Perryman, a dealer, from using the trademark in her business of selling second-hand toys to collectors:

> **You can't sell a branded product without using its brand name, that is, its trademark . . .** Perryman's principal merchandise is Beanie Babies, so that to forbid it to use "Beanies" in its business name **and advertising (Web or otherwise)** is like forbidding a used car dealer who specializes in selling Chevrolets to mention the name in his advertising . . . **We do not think that by virtue of trademark law producers own their aftermarkets and can impede sellers in the aftermarket from marketing the trademarked product.**

Id. at 512, 513 (emphasis supplied).

In sum, under the first sale doctrine and relevant case law, defendant does not have, nor did it ever have, a legitimate, cognizable cause of action for trademark infringement or dilution. The law permitting S&L Vitamins to sell Defendant's products, and to advertise that it is doing so, is clear, unequivocal, settled, and well-known and is "beyond the reach of trademark law." Taylor Made Golf Company, 265 F. Supp.2d 732.

4. Defendant's counterclaims for common law trademark infringement under state law should be dismissed

As noted above, defendant fails to make out a case for trademark infringement under the Lanhan Act. For the same reasons, defendant's claims for trademark infringement under state law should also be dismissed. As the Southern District recently noted:

> The elements necessary to prevail on common law causes of action for trademark infringement and unfair competition "mirror the Lanham Act claims." In addition, to succeed on the merits of a "common

> law claim of unfair competition, [a plaintiff] must couple its evidence supporting liability under the Lanham Act with additional evidence demonstrating [the defendant's] bad faith."

Louis Vuitton Malletier v. Dooney & Bourke, 240 F.Supp.2d 415, 436 (S.D.N.Y. 2004). Because defendant cannot make out a claim under the Lanham Act, it also cannot do so under state law.

5. Defendant's counterclaims under New York's consumer protection statutes should be dismissed

Defendant's Sixth and Eighth counterclaims, under N.Y. Gen. Bus. Law §§349 and 350 respectively, also must be dismissed pursuant to Fed. R. Civ. P. 12(b)(6). These New York consumer protection statutes protect consumers by, among other things, prohibiting **deceptive** acts or practices in the conduct of any business, trade, or commerce and prohibiting false advertising in the conduct of any business, trade, or commerce. Here defendant alleges no deception at all.

The elements of a claim for deceptive trade practices are: (1) deceptive acts have been directed at consumers, (2) the acts were misleading in a material way, and (3) in addition to the claimant being injured, the public was injured or there has been harm to the public interest. Gucci America, Inc. v. Duty Free Apparel, Ltd., 277 F.Supp.2d 269, 273 (S.D.N.Y. 2003). For an act to be deceptive, it must mislead a reasonable consumer. MasterCard Intern. Inc. v. Nader 2000 Primary Committee, Inc., 70 U.S.P.Q.2d (BNA) 1046, 2004 WL 434404 (S.D.N.Y. 2004). The elements of a claim for false advertising are: (1) advertising that had an impact on consumers, (2) the advertising was deceptive or misleading in a material way, and (3) in addition to the claimant being injured, the public was injured or there has been harm to the public interest. See generally, Andre Strishak & Associates, P.C. v. Hewlett Packard Co., 300 A.D.2d 608, 609, 752 N.Y.S.2d 400 (2d Dep't 2002). For an advertisement to be misleading, it must **mislead** a reasonable consumer. Id. Again, keeping in mind Judge Posner's teaching that "to forbid [a seller] to use [a trademark] in its business name **and advertising (Web or otherwise)** is like forbidding a used car dealer who specializes in selling Chevrolets to mention the name in his advertising . . .," there is simply no way to interpret plaintiff's sale of Austalian Gold merchandise utilizing the Australian Gold trademarks as "deceptive."

In any event, trademark infringement claims are deemed to fall outside the ambit of §§ 349 and 350. Jaret Int'l, Inc. v. Promotion in Motion, Inc., 826 F.Supp 69, 78 (E.D.N.Y. 1993) (citing R. Givens, Practice Commentaries on N.Y.G.B.L. §349 at 567 (McKinney 1988)). While a trademark owner may bring a claim under §§ 349 and 350, the injury asserted must be an injury to the public at large, not just to the trademark owner (of course, defendant has not even alleged injury to itself here). See generally, Perkins School for the Blind v. Maxi-Aids, Inc., 274 F.Supp.2d 319, 327 (E.D.N.Y. 2003). It is well-established that "trademark infringement actions alleging only general consumer confusion do not threaten the direct harm to consumers" for purposes of stating a claim under §349 or §350. La Cibeles, Inc. v. Adipar, Ltd., 2000 WL 1253240 at *15 (citing Sports Traveler, Inc. v. Advance Magazine Publishers, Inc., 1997 WL 137443 at *2-3 (S.D.N.Y. Mar. 24, 1997); Ivy Mar. Co., Inc. v. C.R. Seasons

Ltd., 1998 WL 704112 at *7 (E.D.N.Y. Oct. 7, 1998) (stating that the injury to consumers or the public interest under § 349 must be more than "the general variety of consumer confusion that is the gravamen of such a claim"). Moreover, the deceptive acts or practices must be pled with specificity. See generally, Pelman v. McDonald's Corp., 237 F.Supp.2d 512, 526 (S.D.N.Y. 2003).

Defendant's Sixth and Eighth counterclaims, alleging unfair competition, deceptive business practices, and false advertising under New York's consumer protection statutes, fail completely to allege the direct harm to consumers that is required to state a claim under §§ 349 and 350. At best, the counterclaims assert (however illogically) general consumer confusion which does not qualify as a violation of the consumer protection statutes. Because Counterclaims Six and Eight utterly fail to identify the requisite harm to consumers or the public interest, defendant's counterclaims must be dismissed. The Eighth counterclaim also must be dismissed because it does not even describe the manner in which S & L engaged in false advertising.

6. Defendant's counterclaims for tortious interference with contract and tortious interference with prospective economic advantage contain insufficient allegations to make out a cognizable legal claim, and this claim should be dismissed pursuant to Fed. R. Civ. P. 12(b)(6)

In addition to the trademark-related claims dealt with above, defendant's counterclaims for relief under tortious interference with contractual relations and tortious interference with prospective economic advantage contain insufficient facts to state a cognizable legal basis for relief and, thus, must be dismissed.

In New York, the elements which a plaintiff must plead to state the cause of action for tortious interference with contract are (1) a valid contract between plaintiff and a third party; (2) defendant's knowledge of this contract; (3) defendant's intentional acts designed to induce a breach or disruption of the contractual relationship; (4) actual breach or disruption of the contractual relationship; and (5) resulting damage. Defendant's allegations, even if taken as true, simply cannot satisfy these elements.

It is not enough to allege a defendant's merely general knowledge of the alleged existence of a distribution agreement between a plaintiff and a third party to meet the second prong above and impose legal liability on a defendant. A case involving remarkably similar facts and the same legal standard is John Paul Mitchell Systems v. Quality King Distributors, Inc. et al., 106 F.Supp.2d 462, 475. (S.D.N.Y. 2000). There, as here, a manufacturer claimed that an "unauthorized" distributor of its salon products was interfering with its distribution contracts. Considering the same sort of generalized allegations set forth here that unspecified distribution contracts were breached due to the defendant's inducement, the court rejected the claim, writing as follows:

> [Plaintiff] will have a more difficult time proving that [defendant] knew that the only possible source of [the manufacturer's] product would be a distributor or salon violating its contract. Although [plaintiff] publicly states that it sells its products only through salons, this creates no legal obligation on its part to do so. From [defendant]'s perspective, [plaintiff] may say that it only sells its product to distributors contractually bound to sell only to salons, but may in fact sell to distributors who

> have not made this contractual commitment. Indeed, [one distributor's] 1999 purchases from [the manufacturer] were made on an order-by-order basis, apparently without a contract. Although this Court is satisfied by [plaintiff]'s representations that [plaintiff] did require such contracts from all distributors during the life of the [distributor] contract . . . [defendant] did not have such sworn representations.

In other words, absent specific knowledge of specific distribution contracts that might be implicated by its actual purchases of merchandise, there is no legal basis to place a duty on a business such as S&L Vitamins to curtail its legitimate commercial activities merely to avoid the risk that it might, theoretically, impinge on some contractual relationship between parties unknown to it.

Similarly, in Matrix Essentials, Inc. v. Cosmetic Gallery, Inc., 870 F.Supp. 1237 (D.N.J. 1994), cited in John Paul Mitchell Systems, another "salon-only" manufacturer sought to enforce its distribution policy against third parties by asserting tortious interference with contract. There, too, the defendants had purchased the products in question in "authorized" salons and then resold them. The court in Matrix Essentials, too, required particular knowledge of the anti-diversion provisions of the distribution contracts in order to show actionable knowledge on the part of the defendants, writing, "We do not equate general knowledge of the Matrix distribution scheme to knowledge of the existence or contents of the salon agreements." Id. at 1247.

Both Matrix Essentials and John Paul Mitchell Systems involved claims based on the defendant's purchases made from distributors in supposed violation of contractual provisions, and both claims failed. Yet here defendant's claims suffer not only from the same deficiencies as the ones in those cases, they suffer from even more serious problems: Defendant here claims that the alleged "inducing" behavior by S&L Vitamins "interfered with the[] relationships" between defendant and its unnamed distributors - by purchasing merchandise from third parties (the tanning salons) which are not even parties to those unspecified relationships!

In fact, nothing in defendant's pleadings demonstrate that defendant has either a basis for claiming that S&L Vitamins had done business with any distributors – as evidenced by defendant's failure to identify even a single distributor that S&L Vitamins allegedly did business with or any grounds for a good faith belief that it did so – or a basis for claiming that S&L Vitamins knew of defendant's specific contracts, much less their anti-diversion provisions, with any specific distributors. Under these facts, S&L Vitamins cannot realistically be said to have known, for purposes of imposing tort liability or otherwise, of any contract between defendant and its distributors, much less its specific terms and limitations, as the law requires before finding interference with that contract.

Plaintiff's pleadings fail also to allege facts that amount to satisfaction of the third prong to establish such liability: that a defendant's intentional acts are designed to **induce** a breach or disruption of the contractual relationship. Here, the complaint does not even allege that there was any **inducement** by S&L Vitamins to a party to that contract. By defendant's logic, not only S&L Vitamins, but S&L Vitamins' customers, and any other person on Earth to whom they might sell Australian Gold products would also be liable for "inducing" a breach of an unknown contract between these two utter strangers.

Finally, even if defendant could overcome these burdens, its claims would still be appropriate for dismissal under Rule 12(b)(6) because it has failed to make any legally cognizable, or even coherent, allegation of damages, another necessary element in a tortious interference claim (and, indeed, a trademark or unfair competition claim). Its only allegation is that S&L Vitamins sold its products on the Internet, which is somehow presumed to be harmful.

In fact, ordinarily selling a company's product is considered a **benefit**, not an injury, to the company. As the court wrote in that John Paul Mitchell Systems, rejecting the tortious interference claim based on so-called "diversion," courts across the country "have been suspicious of the claim that disruption of these exclusive distribution arrangements causes any pecuniary injury . . ." 106 F.Supp.2d at 475, citing H.L. Hayden Co. v. Siemens Medical Sys., Inc., 879 F.2d 1005, 1024 (2d Cir. 1989), Graham Webb Int'l Ltd. Partnership v. Emporium Drug Mart, Inc., 916 F.Supp. 909, 918 (E.D. Ark. 1995) ("no basis for concluding that [any] lost sales would be greater than the increased revenue resulting from the availability of the product in ordinary retail outlets"), Matrix Essentials, id. at 1250. Here, too, defendant has made no allegation that it suffered any specific, financial harm from S&L Vitamins' alleged interference with contract – nor, logically, could it. As these cases demonstrate, a generalized claim of harm merely by virtue of not being able to employ the distribution scheme of choice cannot form the basis of a tortious interference claim. According to its own allegations and common sense, the result of plaintiff's lawful activities is that Australian Gold distributors are selling more Australian Gold merchandise than if plaintiff were not buying it from tanning salons (who are not parties to this action). Obviously Australian Gold is also selling more Australian Gold merchandise - at full price - to its distributors (who are not parties to this action), and to consumers. Consumers are buying more Australian Gold and enjoying its many fine qualities - but they are not paying as much for it as plaintiff would like. If all this Australian Gold being bought and sold by plaintiff constitutes a harm to Australian Gold, it is not one of which the law should take cognizance.

Ultimately, it would be a strange shifting of legal burdens to suggest that merely by asserting the existence of a contract between oneself and a third party, one could demand that a person stop advertising and selling products and essentially close its business. Considering all the foregoing, defendant has pled insufficient facts under a cognizable legal theory, and, therefore, under Rule 12(b)(6), the court should dismiss defendant's claim for intentional interference with contractual relations.

7. Defendant's counterclaims for injunctive relief and conspiracy should be dismissed pursuant to Fed. R. Civ. P. 12(b)(6)

Defendant's counterclaims for injunctive relief and conspiracy are not independent causes of action, but are derivative of the first eight counts of the counterclaim. As such, they fail to state a cognizable legal basis for relief and, thus, must be dismissed.

CONCLUSION

For all the reasons set forth above, this Honorable Court respectfully should grant defendants Rule 12(b)(6) motion for dismissal for failure to state a claim upon which relief can be granted.

Respectfully submitted,

By: [signature]

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